

***NYCAN PETROLEUM CORP.***

***1994 Annual Report***





## **CORPORATE PROFILE**

Nycan Petroleum Corp. is a junior Canadian energy company engaged in exploring for, developing and producing oil and natural gas, primarily in Alberta. Nycan's objective is to grow through exploration and development and asset acquisition and rationalization in Western Canada. Nycan was formed in March 1993 and completed its first major transaction in February 1994. Thereafter the Company accomplished significant growth through a reverse takeover of a private oil and gas company in April 1994, which culminated in the amalgamation of several wholly-owned subsidiaries in June 1994. This streamlined the business administratively and expanded the asset base to allow exploration, drilling and land activities to be Nycan's major focus from June through year end.

Nycan's common shares are widely held in Western Canada. The trading symbol on the Alberta Stock Exchange is "NAP.A". The Company's commitment to shareholders is to increase share value and to gain financial strength by increasing cash flow and asset value.





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## ANNUAL MEETING

The annual meeting of shareholders will be held in the Cardium B Room, of the Calgary Petroleum Club, 319 - 5th Avenue S. W., Calgary, Alberta at 10:00 a.m., Thursday, June 22, 1995.

## ABBREVIATIONS

Bbls	barrels
Bbls/d	barrels per day
BOPD	barrels of oil per day
BOED	barrels of oil equivalent per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
NGLs	natural gas liquids



## Message to Shareholders

On behalf of the Board of Directors, I am pleased to report on the achievements of Nycan Petroleum Corp. for the year ended December 31, 1994.

The Company has advanced from a start-up public entity in 1993 to an active oil industry participant with a solid production base, cash flow and undeveloped land base on which to pursue its exploration and drilling activity, acquisitions and dispositions. During the first half of 1994, management's efforts were concentrated on streamlining the administration of the Company and consolidating assets. The first major transaction for Nycan was completed in February, 1994, the acquisition of a producing property at Pembina-Berrymoor using a combination of cash and a share issue. In April, the reverse takeover of Cheetah Energy Limited and its wholly-owned subsidiaries provided the Company with a diversified asset base and cash flow from which to participate in the energy market. These important changes have allowed for a busy second half--rationalizing assets, exploring for and developing reserves and purchasing complementary lands. In the last half of 1994, the Company participated in two major land purchases in Alberta at Bigstone and Willesden Green, which will be further defined through drilling in 1995.

The Company also participated in the successful drilling and completion of two gaswells in the Markerville area of central Alberta. Through several smaller asset purchases, Nycan increased its working interests in existing core properties. Nycan disposed of several non-core properties.

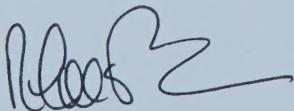
Funds flow from operations increased from \$ 158,526 in 1993 to \$ 543,150 in 1994. Production revenues net of operating costs and royalties increased from \$ 275,591 in 1993 to \$ 781,331 in 1994. Capital expenditures for the year ended December 31, 1994 were \$ 1,233,854. These costs were primarily associated with the reverse takeover in the spring [\$ 618,063]; land acquisition costs in the summer [\$202,612] and fall drilling projects [\$211,021]. General and administrative costs were \$ 197,463 compared to \$ 117,065 in 1993. Included in this number are one time costs associated with Nycan's first full year of operations.

Daily average production volumes for the Company in 1994 were 140 barrels of oil and natural gas liquids and 644 mcf of natural gas.

The achievements of the Company were due to the dedication of a very few people. I would like to thank the employees, consultants and associates of Nycan who have supported the Company's endeavours and contributed directly to the Company's growth in 1994. Thank you also to the shareholders who have continued to have faith in our ability to achieve our goals.

Despite the recent market fluctuations, Nycan remains optimistic about the future. Through conservative management, well planned exploration and prudent acquisitions, we will continue to enhance our asset base and achieve reasonable growth in production volumes and cash flow in 1995.

On behalf of the Board of Directors



R. L. McPherson  
President

May 15, 1995



## **Review of Exploration and Development Operations**

### **BIGSTONE**

Nycan farmed out its interest in two sections of land in the Bigstone area of Alberta and retained a 6.25% carried working interest to casing point in the initial well drilled on the lands. This well, which was drilled in the last quarter of 1994, has been completed as a multi-zone gas well. Subsequent to the drilling of the well, Nycan participated for its 6.25% working interest in the purchase of 4000 acres of land offsetting the discovery well. Production from this well is expected to commence during the third quarter of 1995. Additional land acquisition and drilling early in 1995 has further enhanced the value of this prospect.

### **JOFFRE**

The Company has interests ranging from a gross overriding royalty to 14% working interest in three producing Mannville Group gas wells in the Joffre area of central Alberta. Nycan increased its working interest in the three wells by purchasing the interest of one of its joint venture partners.

### **LITTLE BOW UPPER MANNVILLE "I" UNIT**

This property in southeastern Alberta is the Company's major producing property. During 1994, net production to Nycan was 60 BOPD and 20 Mcf/d. This year four successful oil wells were drilled immediately offsetting the unit. These wells indicate that the pool is larger than previously thought. It is anticipated that this development will lead to additional wells being drilled in the unit and that the profitability of the operation will be enhanced by processing the oil from the competitor discoveries through the unit facilities.

### **MARKERVILLE**

The Company has interests ranging from a gross overriding royalty to a 22.5% working interest in seven gas wells and two oil wells in this area, just west of Innisfail, Alberta. The leased lands cover an area of 11,777 gross acres. Two successful Basal Quartz gas wells were drilled in 1994. The 2-4-37-2 W5M, in which Nycan has a seven percent interest, was completed and placed on production on December 22, 1994 at a rate of 1.5 MMcf/d. Nycan participated for 14.5% in the well 13-20-36-2 W5M which was drilled in December. The well will be completed and placed on production during the third quarter of 1995 at an estimated rate of 2 - 3 MMcf/d.

The 14-33-36-2 W5M Basal Quartz gas well paid out in August, 1994 and Nycan converted its royalty interest to a 22.5% working interest. This conversion led to the equalization of capital costs, netting Nycan a proportionate interest in the Lanaway Gas Gathering System.

Net production to Nycan for Markerville in 1994 was 230 Mcf/d.

### **MEDICINE RIVER**

Nycan has an interest in 2,242 gross acres in this area. The Company has a 10% working interest in two gas wells producing from the Basal Quartz formation. During 1994 net production from these wells was 214 Mcf/d. The Company pooled and farmed out to retain a 10% working interest in an Ostracod gas well at 4-22-39-5 W5M. The

well has been completed and tie-in is scheduled for mid 1995. Gross production is anticipated to be approximately 1 Mmcf/d.

### **PEMBINA-BERRYMOOR**

This Cardium oil property, which is approximately 100 kilometres southwest of Edmonton, was acquired by Nycan late in 1993 as part of its major transaction. The company has a 15% working interest in three producing oil wells, and six prospective locations on 2,240 gross acres of land in the Berrymoor area. One re-entry and recompletion well is planned for 1995.

### **WILLESDEN GREEN**

Two sections of land in this area northwest of Red Deer, Alberta were purchased by one of Nycan's predecessors in April, 1992. During 1994, Nycan farmed out its interest in these two sections in return for the drilling of a 2,500 metre Mississippian test. In this well, which discovered gas in the Jurassic Rock Creek, Nycan retained a net 3.33% non-convertible gross overriding royalty in the production spacing unit for the well and a 10% working interest in the balance of the lands. This well led to the purchase of an additional 7040 gross acres of offsetting lands in which Nycan has a 10% working interest.

The second well drilled on the lands is currently suspended and is not considered to be capable of Rock Creek gas production.

Approximately 25% of the lands acquired on this property, including the land on which the discovery was drilled, are part of a petroleum and natural gas zonal rights dispute with an industry competitor. Nycan and its partners are confident that its position will prevail at a hearing before the Alberta Energy and Utilities Board. Assuming the outcome is as anticipated, the discovery well will be placed on production in the fourth quarter of 1995 at a rate of approximately 2 MMcf/d. Nycan anticipates that at least one more well will be drilled on the lands during 1995.

### **WILSON CREEK**

Nycan owns working interests ranging from 0.98% to 8.28% in a portion of the Wilson Creek Belly River "A" Pool. There are currently twenty producing oil wells, and three producing gas wells in the pool in which Nycan has an interest. Further development drilling for oil on this property is dependent upon a stable price for crude.



## Estimated Reserves and Present Value

(from Ashton Jenkins Report)

	<u>Gross Reserves</u>			<u>Net Reserves</u>			<u>Estimated Present Worth Value Discounted at</u>			
	<u>Oil</u> (Mstb)	<u>Natural Gas Liquids</u> (Mstb)	<u>Natural Gas</u> (MMcf)	<u>Oil</u> (Mstb)	<u>Natural Gas Liquids</u> (Mstb)	<u>Natural Gas</u> (MMcf)	<u>0%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
Escalated Prices	(thousands of dollars)									
Proved Producing	146	63	1618	116	55	1365	3887	2533	2162	1891
Proved Non-Producing	--	41	1340	--	33	1148	2523	1284	1001	809
Total Proved	<u>146</u>	<u>104</u>	<u>2958</u>	<u>116</u>	<u>88</u>	<u>2513</u>	<u>6410</u>	<u>3817</u>	<u>3163</u>	<u>2700</u>
Probable Additional	77	18	839	55	16	666	2149	912	656	491
TOTAL	<u>223</u>	<u>122</u>	<u>3797</u>	<u>171</u>	<u>104</u>	<u>3179</u>	<u>8559</u>	<u>4729</u>	<u>3819</u>	<u>3191</u>

## Undeveloped Land Holdings

In a report dated May 3, 1995 by Seaton-Jordan & Associates, independent consultants, the market value of the undeveloped lands as of December 31, 1994 are estimated to be \$522,633.

	<u>Gross Acres</u>	<u>Net Acres</u>
Alberta	35,783	6,930

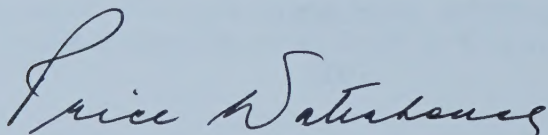
April 21, 1995

## **Auditors' Report**

We have audited the balance sheet of Nycan Petroleum Corp. as at December 31, 1994 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

A handwritten signature in cursive script that reads "Price Waterhouse".

Chartered Accountants



# Nycan Petroleum Corp.

## Balance Sheet

	December 31	
	1994	1993
<b>Assets</b>		
Current assets		
Cash and term deposits	\$ -	\$ 179,744
Accounts receivable	296,165	239,295
Other	-	51,857
	<u>296,165</u>	<u>470,896</u>
Property, plant and equipment, net (Note 3)	<u>2,801,451</u>	<u>2,027,992</u>
	<u>\$3,097,616</u>	<u>\$2,498,888</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 305,377	\$ 394,278
Bank loan, secured (Note 4)	140,555	120,000
Deferred income taxes	60,494	116,494
Future site restoration liability	16,045	8,130
Minority interest	-	70,000
<b>Shareholders' Equity</b>		
Capital stock (Note 5)		
Common shares	2,138,319	1,655,320
Preferred shares	120,000	-
Retained earnings	<u>316,826</u>	<u>134,666</u>
	<u>2,575,145</u>	<u>1,789,986</u>
	<u>\$3,097,616</u>	<u>\$2,498,888</u>

Approved by the Board



Director



Director

# Nycan Petroleum Corp.

## Statement of Income and Retained Earnings

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	Year ended December 31 1994	Seven months ended December 31 1993
Revenues		
Oil and gas production, net	\$ 1,184,851	\$ 268,830
Consulting	28,261	57,425
Other	<u>-</u>	<u>29,432</u>
	1,213,112	355,687
Expenses		
Production	431,781	80,096
General and administrative	197,463	117,065
Depletion and depreciation	356,810	78,804
Interest	<u>28,040</u>	<u>-</u>
	1,014,094	275,965
Income before income taxes	<u>199,018</u>	<u>79,722</u>
Income taxes (Note 6)		
Deferred	-	17,500
Current	<u>12,678</u>	<u>-</u>
	12,678	17,500
Net income for the period	<u>186,340</u>	<u>62,222</u>
Retained earnings at beginning of period	134,666	75,419
Less: Dividends paid	<u>(4,180)</u>	<u>(2,975)</u>
Retained earnings at end of period	<u>\$ 316,826</u>	<u>\$ 134,666</u>
Earnings per share	<u>\$ .008</u>	<u>\$ .003</u>



# Nycan Petroleum Corp.

## Statement of Changes in Financial Position

	Year ended December 31 1994	Seven months ended December 31 1993
Cash provided by (used in) operating activities		
Net income	\$ 186,340	\$ 62,222
Add: Non-cash items		
Depletion and depreciation	356,810	78,804
Deferred income taxes	-	17,500
	<u>543,150</u>	<u>158,526</u>
Funds flow from operations	543,150	158,526
Net change in non-cash working capital components	<u>(73,359)</u>	<u>107,642</u>
	469,791	266,168
Cash provided by (used in) investing activities		
Disposal of capital assets	111,500	11,419
Capital expenditures	(615,791)	(353,108)
Acquisition of capital assets in take-over purchase	(618,063)	-
Acquisition of subsidiaries, less cash acquired	-	(1,340,186)
	<u>(1,122,354)</u>	<u>(1,681,875)</u>
Cash used in investing activities	(1,122,354)	(1,681,875)
Cash (used in) provided by financing activities		
Repayment of note payable	(70,000)	-
Issuance of common share capital	426,999	1,384,298
Issuance of preferred share capital	120,000	-
Dividends paid	(4,180)	(2,975)
	<u>472,819</u>	<u>1,381,323</u>
Cash provided by financing activities	472,819	1,381,323
Net decrease in cash	(179,744)	(34,384)
Cash at beginning of the period	<u>179,744</u>	<u>214,128</u>
Cash at end of the period	<u>\$ -</u>	<u>\$ 179,744</u>
Funds flow per share	<u>\$ .024</u>	<u>\$ .008</u>

# Nycan Petroleum Corp.

## Notes to Financial Statements

For the period ended December 31, 1994

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### 1. Accounting policy

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells and related overhead charges. The capitalized costs are depleted using the composite unit-of-production method based upon estimated proved reserves before royalties. In calculating depletion, crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

The capitalized costs less accumulated depletion and depreciation, deferred taxes, and restoration costs are limited to an amount equal to the estimated future net revenues from proved reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproven properties, less estimated future general and administrative expenses, financing costs, income taxes and restoration costs.

The Company has various joint ventures that are accounted for on a proportionately consolidated basis.

### 2. Business combination

Pursuant to a take-over bid that became effective April 22, 1994, Nycan Petroleum Corp. ("Nycan") purchased all of the issued and outstanding common shares and special warrants of Cheetah Energy Limited ("Cheetah"). Each shareholder of Cheetah received 6.33 shares of Nycan for each share held. As a result, the former shareholders of Cheetah hold the majority of the outstanding common shares of Nycan. Reverse take-over accounting principles have been applied to record this acquisition using the purchase method of accounting. Accordingly, the transaction has been treated for accounting purposes, as an acquisition by Cheetah of 100% of the net assets and business of Nycan.

These financial statements include the results of operations of Cheetah from January 1, 1994 to April 21, 1994, together with the results of Nycan since April 22, 1994, the effective date of the transaction. The comparative figures are for the seven months ended December 31, 1993 for Cheetah.

These financial statements reflect the estimated net fair value of the assets acquired on April 22, 1994, including petroleum and natural gas properties of \$618,063 and a working capital deficit of \$(102,397).



# Nycan Petroleum Corp.

## Notes to Financial Statements

For the period ended December 31, 1994

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### 3. Property, plant and equipment

	December 31	
	1994	1993
Petroleum and natural gas properties, at cost	\$4,081,221	\$2,950,062
Accumulated depletion and depreciation	<u>1,279,770</u>	<u>922,070</u>
	<u>\$2,801,451</u>	<u>\$2,027,992</u>

Included in property, plant and equipment are non-deductible costs of \$246,966.

### 4. Long-term debt

The Company has a \$500,000 secured revolving production loan, of which \$140,555 was outstanding at December 31, 1994, with a Canadian chartered bank. The facility carries an interest rate of prime plus 1%, is payable on demand and is subject to annual review. There is also a standby fee of 1/2% per annum, calculated on the undrawn portion as well as a \$150 per month administration fee.

The loan is secured by an interest in all present and after-acquired personal property.

### 5. Share capital

#### Authorized

- Unlimited number of Class A common shares without nominal or par value
- Unlimited number of Class B common shares without nominal or par value
- Unlimited number of Class C preferred shares without nominal or par value
- Unlimited number of Class D preferred shares without nominal or par value

On November 1, 1994, the Company issued 1,200 Class D convertible, redeemable, retractable, preferred shares, having a redemption price of \$100 per share and convertible at a ratio of 500 common shares for one preferred share. Dividends shall accrue on a day-to-day basis and be paid quarterly in the amount of \$2.125 per share.

	Number	Amount
Common shares		
Issued		
Balance at December 31, 1993	3,916,667	\$1,655,320
Stock options and warrants exercised	391,478	85,000
Shares issued to effect purchase, net of share issuance costs and related tax benefits	20,034,235	439,666
Shares cancelled	<u>(833,332)</u>	<u>(41,667)</u>
Balance at December 31, 1994	<u>23,509,048</u>	<u>\$2,138,319</u>

There are currently options outstanding to acquire 450,000 Nycan common shares at prices ranging between \$0.10 and \$0.15. These options expire between June 6, 1995 and July 7, 1999.

# Nycan Petroleum Corp.

## Notes to Financial Statements

For the period ended December 31, 1994

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### 6. Income taxes

The provision for income taxes in the statement of income and retained earnings varies from the amount that would be computed by applying the expected tax rate of 44% (1993 - 19%) to income before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	Year ended December 31 1994	Seven months ended December 31 1993
Computed expected income tax expense	\$ 81,990	\$15,148
Increase in income taxes resulting from		
Non-deductible royalties, taxes and lease rentals	56,079	3,630
Federal resource allowance	(60,755)	(5,572)
Alberta royalty tax credit	(55,689)	(2,996)
Recognition of prior years' tax losses not previously recognized	(21,290)	-
Non-deductible depletion and other	12,343	7,290
	<u>\$ 12,678</u>	<u>\$17,500</u>

The Company has the following tax deductions available to reduce future taxable income:

Non-capital loss carryforwards	\$ 637,000
Canadian oil and gas property expense	453,000
Canadian development expense	64,000
Canadian exploration expense	68,000
Undepreciated capital cost	464,000
Foreign exploration and development expense	1,166,000
	<u>\$2,852,000</u>

Certain of these deductions are "streamed" and therefore, their deductibility is dependent upon earning income from specific properties.



*NYCAN PETROLEUM CORP.*

*CORPORATE INFORMATION*

*CORPORATE OFFICE*

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Price Waterhouse  
Chartered Accountants

*REGISTRAR AND TRANSFER AGENT*

Montreal Trust of Canada  
Calgary, Alberta

*RESERVE ENGINEERING CONSULTANTS*

Ashton Jenkins & Associates Ltd.  
Calgary, Alberta

*STOCK LISTING*

The Alberta Stock Exchange  
Trading Symbol NAP.A

*BOARD OF DIRECTORS*

Robert L. McPherson  
Clifford A. Jeffrey  
Thomas W. Robinson  
Ian D. Henderson  
Leo J. M. Jegen  
Robert W. Lamond  
Patrick T. McCarthy  
Charles A. Teare









